Post-Harvest Losses reduction and Agro-Processing Flagship

PHAP

THE AFRICAN DEVELOPMENT BANK GROUP

Advancing African Agribusiness: AFDB Private Sector Financing

Olukemi Afun-Ogidan

Principal Agribusiness Officer

Agriculture and Agro-Industry Department, AFDB

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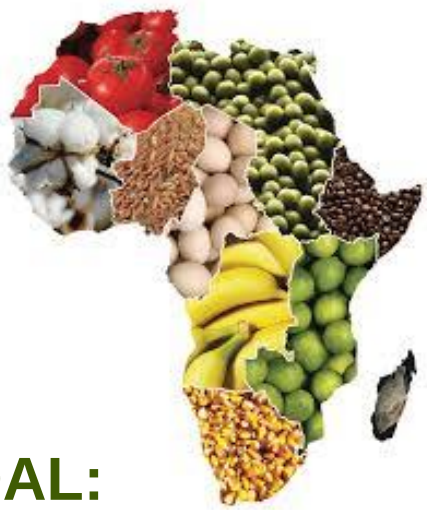
I. Context

FEED AFRICA: AFDB'S STRATEGY



GOAL:

Achieve Self-Sufficiency & Market Surplus

In 18 Priority Commodity Value Chains

In 5 Agro-Ecological Zones (AEZs)

The Bank's objectives are

1. **Improved food and nutrition security (youth and women)**
2. **New jobs in micro, small and medium enterprises (youth and women)**

Demand Side

1. **Increase agricultural production (per capita food production) and marketable surplus of the 18 priority commodity value chains in targeted AEZs;**
2. **Increase value-added in agro-processing and services along the 18 priority commodity value chains in targeted AEZs;**

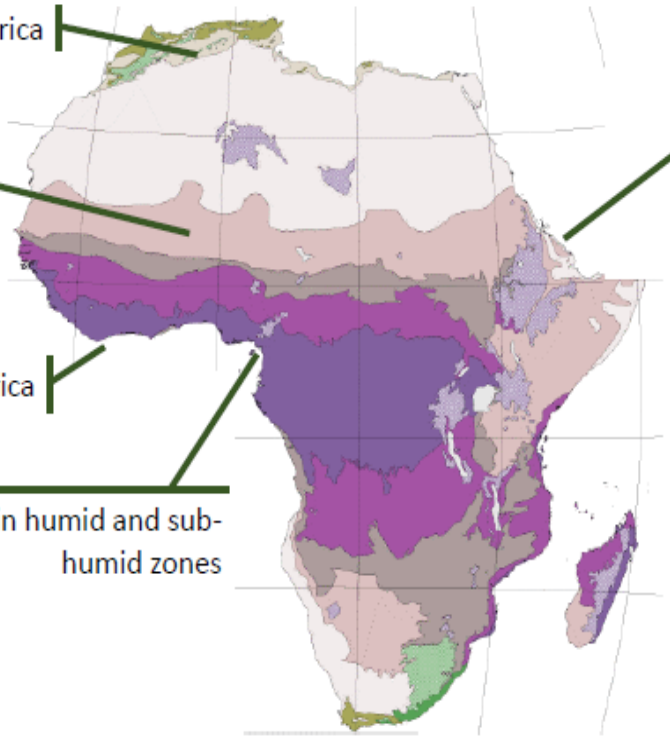
A FOCUSED APPROACH ON INTEGRATED COMMODITY VALUE CHAINS

Food self-sufficiency: rice, wheat, fish, palm oil, horticulture, cassava

Moving-up the global value chain in cocoa, coffee, cotton, cashew

Creating a food-secure Sahel (sorghum, millet, livestock)

Realizing the potential of the Guinea savannah (maize, soybean, livestock)



In particular, Feed Africa will take a **commodity-focused integrated approach** – simultaneously addressing multiple bottlenecks across entire **prioritized agricultural commodity value chains** and within related **agro-ecological zones**

II. Filling the Financing Gap

KEY PERFORMANCE INDICATORS

For Inclusive and Sustainable Rural Transformation:

Corporate players

- As anchors in key value chains
- Linkage with agriculture SMEs

Smallholder and Agri-SMEs

- Introduce new financial instruments to diversify financing options for small agri-borrowers

TARGET SEGMENTS OF THE VALUE CHAINS

- Corporates working with outgrowers and smallholder farmers (ETG, Dangote, Olam)

- SME's engaged in agriculture support services, such as:
  - Warehouse operators
  - Aggregators
  - Agro-dealers
  - Processors
  - Distributors

- Farmers, Cooperatives, Producer Groups along Value Chains

CORE PRINCIPALS

Additionality: AFDB does not lend or invest when commercial banks or private investors can do it alone.

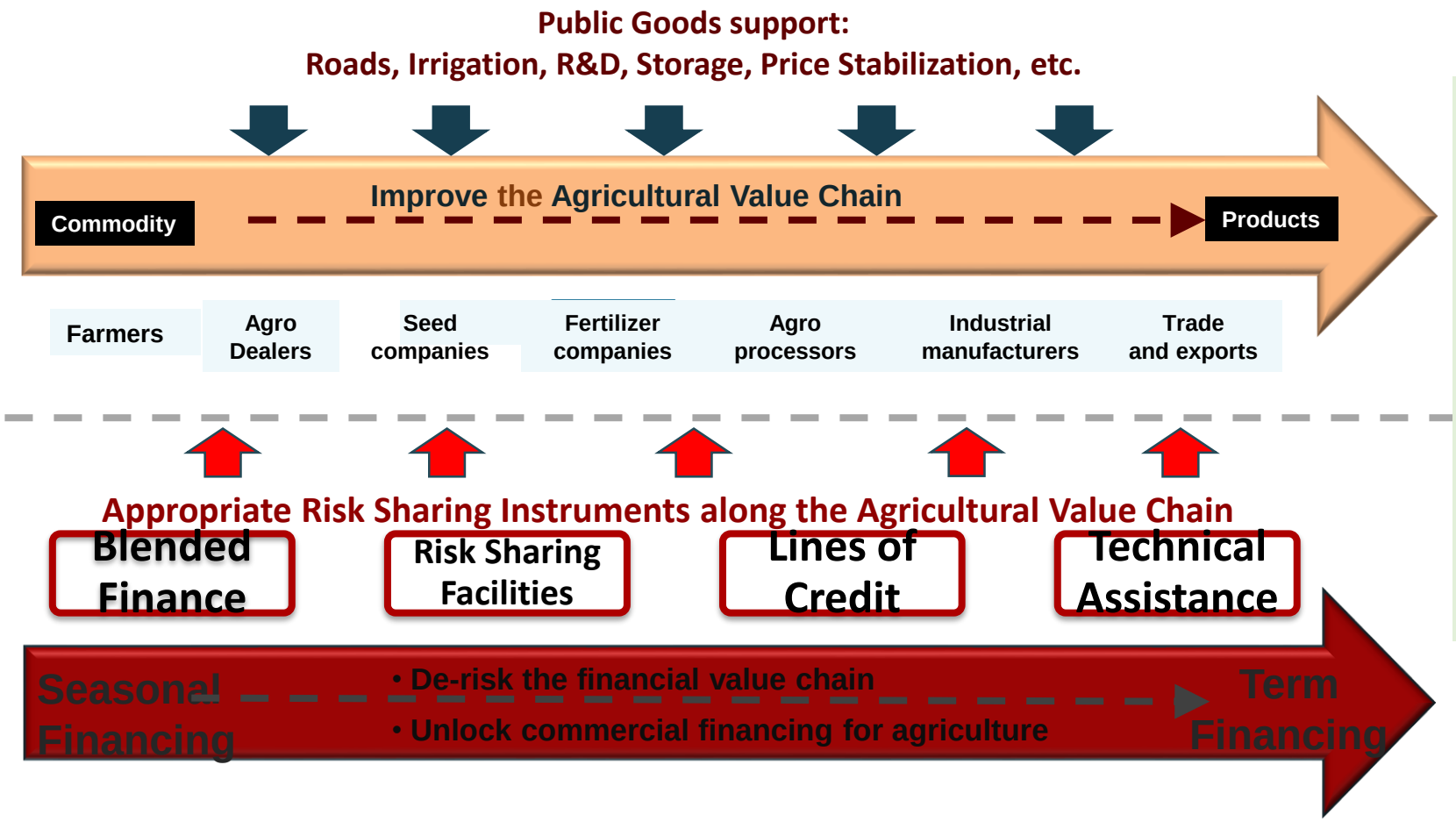
Co-convener: AFDB invites other banks to participate in its operations (syndication, co-financing).

Development focused: AFDB leads the market with longer tenors.

Leverage: AFDB investment “mobilises” for 3 times the project.

Blending with public and concessional funds: AFDB carries out infrastructure investments, risk-sharing facilities and sovereign insurance to derisk investments.

AGRIBUSINESS: FINANCING THE ENTIRE FOOD CHAIN



- Systemic change in financing for agriculture
- Finance for Private Sector and Agribusiness
- RSF to leverage FI Funds
- Financing agriculture as a business

III. Financing Products

PRIVATE SECTOR FINANCING INSTRUMENTS

Senior Debt

- Adapted maturities (up to 15 years)
- Up to 5 years grace period
- Foreign or local currency loans
- Up to 1/3 of total project cost
- African Financing Partnership – DFI co-financing platform

Trade Finance

- Risk Participation Agreement (RPA)
- Lines of credit
- Soft Commodity Finance Facility (SCFF)

Guarantees

- Partial risk guarantee
- Partial credit guarantee

Subordinated Debt

- Local and foreign currency
- Ranging from sub-debt to quasi equity products
- Terms (tenor and grace period) similar to senior debt

Equity

- Indirect, through Private Equity funds
- Direct, maximum of 25%

Technical Assistance

- Grants for feasibility studies
- Capacity building support
- SME Linkages programs
- Advisory Services

INCLUSIVE BUSINESS: SUPPORT TO AGRI-MSMEs

Recognizing that agri-MSMEs are underserved, we blend our investment with **concessional funds managed within AfDB to scale up outreach to and amplify development impact for small and medium sized agribusinesses**

Fund for African Private Sector Assistance (FAPA)

- **Inclusive Industries Program (IIP): US$ 1m grant** to increase the inclusiveness of Bank-financed agribusiness projects along two lines: (1) SME linkages and (2) community socio-economic development programs
- **AGRA Program for Africa's Seed Systems (PASS): US$ 1m technical assistance** to assist at least 54 seed companies across Africa increase their production of quality seeds for rural farmers.

Agriculture Fast Track (AFT) Fund

- **US$ 23.8m for project preparation** of agri-projects, with emphasis on food security and smallholders.
- **Fruiteq Mango Processing Plant, Burkina Faso:** US$ 425,000
- **FENACOVICI, Côte d'Ivoire:** US$ 551,990 to support 11 agriculture and agro-industry cooperatives with 36,000 members.
- **Tanga Fresh Milk Factory, Tanzania:** US$ 150,500 to expand production through smallholder dairy famers.

Soft Commodity Finance Facility (SCFF)

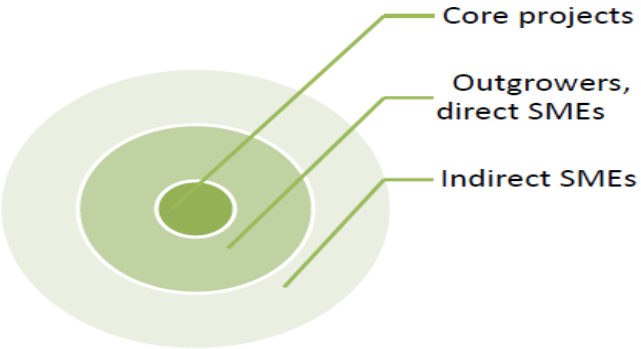
- **US$ 100m** earmarked for trade finance product to provide **input and post-harvest financing** to farmers through commodity aggregators.
- AfDB assumes aggregator risk, so commodity aggregator can on-lend to farmers and/or buy their products.
- Enables farmers obtain guaranteed and better pricing and relieves them of the burden of warehousing and post-harvest storage.

BRIDGING THE GAP

We support private sector projects that **promote linkages between commercial players and smallholder farmers**

Through a combination of **INVESTMENT and TECHNICAL ASSISSTANCE**, the AfDB's Private Sector Strategy for Agriculture focuses on transactions which:

- Contribute to **food security**
- Improve **value addition and agro-processing**
- Promote **transfer of skills and technologies**
- Address the needs of **local and/or regional markets**
- Promote **outgrower schemes and SME business linkages**
- Comply with the **highest environmental and social practices**



AGRIBUSINESS INVESTMENT CRITERIA

Our focus is on delivering **strong development outcomes** through projects which are **commercial viable,** in line with **national and regional priorities**. We do this by playing a **catalytic role** and providing **additionality-** stepping in where others can't or won't.

1. Strategic alignment

- Country's national economic and social priorities
- Bank's strategy in the country/region

2. Commercial viability

- Sector's perspectives
- Financial structure
- Sponsor's track record, experience and financial strength
- Cash flows

3. Development outcomes

- Job creation, households benefits
- Fiscal revenues (taxes, royalties etc.)
- Environmental & social performance
- Private sector development

4. Additionality

- Structuring and Operations
- Political risk mitigation
- Catalytical role

PRODUCTS & OFFERINGS: EQUITY

AfDB can invest equity directly in companies and/or indirectly by making investments into investment funds

- **Due to the lack of allocation available in direct equity, need for a investment strategy that aligns with the Feed Africa objectives.**
  - **Direct equity: ticket size up to USD 15m.**
  - **Private equity fund ticket size: USD 7m – 15m**
  - **Impact fund ticket: USD 1.5m – 4m**

PRODUCTS & OFFERINGS: AGRICULTURAL SMES

Facility For Agriculture Finance in Africa (FAFINA)

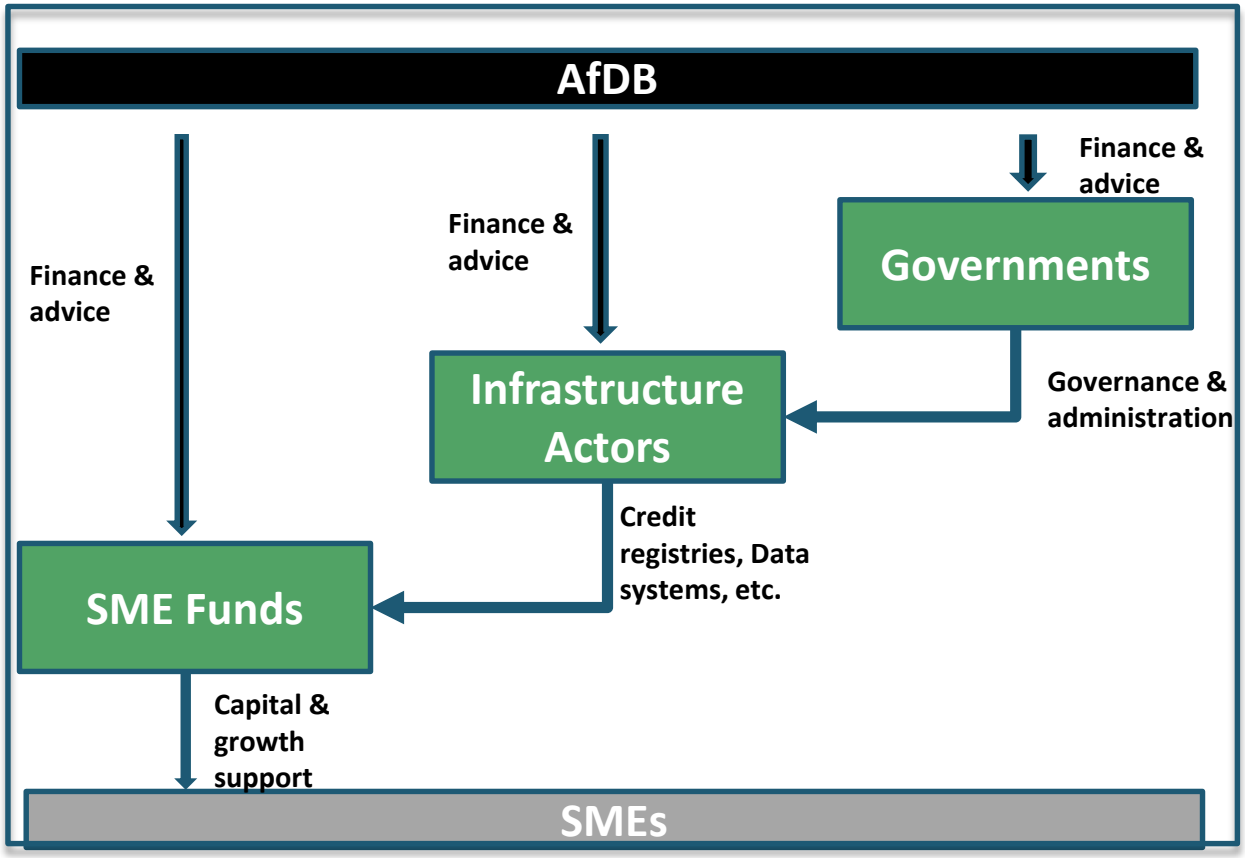
Objective:

Support the growth of Ag SMEs of the sector

Delivery Model:

SME funds that provide agricultural SMEs with equity and working capital finance with:

- project preparatory support,
- concessional first loss guarantees
- technical assistance



AGRICULTURAL RISKS SHARING & FINANCING MECHANISM

<u>OBJECTIVE:</u> The Agricultural Risks Sharing & Mechanism will achieve increased bank lending to SMEs through de-risking credit activities and attracting new capital to the sector.

Key components	Problems addressed
1 Reduce risks for Commercial Banks 2 Leverage excess liquidity into Agriculture. 3 Build Agricultural Capacity of Banks 4 Increasing outreach of banks into rural areas 5 and ensure a systematic change in agricultural lending	• Major commercial banks only loan 1-5% of their portfolio to agriculture • Prohibitively expensive interest rates (15-25%) for agriculture reflect high transaction costs, lack of sector expertise, risk exposure • The Bank will support countries with PPF or MIC grants to design and set up country instruments. Requests have so far been received or expected from Uganda, Rwanda, Liberia Rwanda, Kenya.

- Source: Dalberg interviews in Kenya, Senegal, Nigeria (2015); Omidyar Network, "Accelerating Entrepreneurship in Africa Report," 2013; FAO, "Credit guarantee systems for agriculture and rural enterprise development," 2012

PARTNERSHIPS AND PLATFORMS

Development Finance Institutions

Proparco, FMO, Norfund, IFC, CDC, KFW, OPIC, European Investment Bank

co-financing

AfDB Country offices & Local Banks*

Ecobank

partnerships

Co development partners: Research institutions, consultants, Investor platforms, Policy.

VC4A, FAO, CGIAR, GROWAFRICA, idh, AGRA, NEPAD

Co development

Deal sources

partnerships

Small & large scale agribusinesses, farmer organisations & Food companies

MARS, OLAM, DANGOTE, ZAMBEEF, YARA, Cargill, ETG, Unilever

partnerships

Investment Funds & NBFI's

rootcapital, injaro, PHATISA, AgDevCo, AFRICINVEST, Databank, OLDMUTUAL

Blended finance & Technical assistance budget

Multilateral, Bilateral Donors, Foundations, and government organisations

The ROCKEFELLER FOUNDATION, USAID, IFAD, DFID Department for International Development, Bill & Melinda Gates Foundation, Ministerie van Buitenlandse Zaken, WORLD BANK GROUP

* Local partner banks to be identified

THANK YOU